Mobil Business Resources Corporation

October 29, 1996

Mr. David S. Guzy

Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P. O. Box 25165, Mail Stop 3101
Denver, CO 80225-0165

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
DOCUMENT CONTROL STAFF
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LAKEWOOD, COLORADO

Re: Comments on Proposed Regulations - Amendments to Transportation Allowance Regulations for Federal and Indian Leases to Specify Allowable Costs and Related Amendments to Gas Valuation Regulations, Federal Register (July 31, 1996).

Dear Mr. Guzy:

Mobil Business Resources Corporation, on behalf of Mobil Exploration and Producing U.S., Inc., appreciates the opportunity to comment on Minerals Management Service (MMS) proposed rulemaking governing allowable transportation costs and amendments to the gas valuation regulations for federal and Indian leases. As a significant oil and gas producer and lease holder, the issues of transportation allowances and gas valuation are very important to Mobil.

Mobil concurs entirely with the comments set forth by the American Petroleum Institute (API), and hereby adopts and incorporates them by reference as Mobil's own comments. Certain of the comments are of particular importance to Mobil; we therefore wish to emphasize and reiterate the following issues.

Mobil adamantly objects to MMS's attempt in this proposed rulemaking to equate the lessee's obligation to place production in marketable condition with the proposed, newly-created lessee's obligation to market natural gas and gas plant products at no cost to the federal and Indian lessor. Under the current marketable condition regulation, all a lessee is required to do at no cost to the lessor is to place the production in the physical condition necessary to market it under contracts typical for the field or area. If MMS benefits from the enhanced value of gas marketed downstream from the lease due to costs incurred to market that gas, MMS should bear its share of the cost of that downstream marketing.

For MMS to receive the additional value of downstream-marketed gas or gas products, while the lessee bears the entire cost incurred to increase the value of the gas or gas products, clearly is *not* for the mutual benefit of both parties, as MMS states in the proposed rulemaking. Furthermore, creation of this new duty violates the applicable statutes and lease terms and destroys the very certainty and fairness that the agency's own 1988 regulations were intended to achieve.

A second concern of Mobil is the apparent discriminatory treatment against affiliates contained in proposed Section 206.177(f)(7). While actual or theoretical losses can be deducted under arm's-length contracts, these costs can be deducted under non-arm's-length contracts only when included in a FERC or state regulatory agency-approved tariff. MMS provides no rationale for this limitation of, and discrimination toward, non-arm's-length transportation arrangements.

Thirdly, Mobil strongly disagrees with the retroactive date of May 18, 1992 for the proposed rulemaking and believes a retroactive application would be unlawful. Even if the proposed rules were allowed under current statutes, retroactive application would not only be impractical and unfair, but would probably be impossible. Although transportation-charge information for the previous five years is available, it is highly unlikely that the charges are broken out into the MMS-proposed allowable and non-allowable deductions for the required retroactive reporting.

Mobil appreciates the opportunity to provide comments to this proposed rule. If you have any questions regarding our comments, please call me at (214) 951-4004.

Very truly yours,

Debbi K. Davis

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Regulatory Compliance